

STATE OF WASHINGTON



OFFICE OF  
INSURANCE COMMISSIONER

REPORT OF MARKET CONDUCT EXAMINATION  
OF  
OREGON MUTUAL INSURANCE COMPANY  
AND  
WESTERN PROTECTORS INSURANCE COMPANY  
As of December 31, 1996

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December 12, 1997

Deborah Senn  
Insurance Commissioner  
Olympia, Washington 98504

Pursuant to your instructions and in compliance with the laws of the State of Washington,  
a market conduct examination has been made of

OREGON MUTUAL INSURANCE COMPANY

AND WESTERN PROTECTORS INSURANCE COMPANY

PO Box 808

347 East Fourth

McMinnville, Oregon 97128-0808

and this report of examination is respectfully submitted.

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**EXAMINATION REPORT CERTIFICATION**

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by James Rigney, who also participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the

provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

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Pamela Martin  
Chief Market Conduct Examiner  
Office of the Insurance Commissioner  
State of Washington

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### SCOPE OF EXAMINATION

This is the second Market Conduct examination of the records of the Oregon Mutual Insurance Company and Western Protectors Insurance Company. The original examination addressed activities through December 31, 1992 and was finalized December 5, 1994.

This examination was limited to activities relating to policies issued in the State of Washington and to claims closed for Washington insureds from July 1, 1996, through December 30, 1996. The examination included a review of personal lines and commercial lines business, and company procedures in the following areas:

- Advertising
- Agencies and Marketing
- Cancellation and Declination Practices
- Claim Settlement Practices
- Form and Rate Filings
- Non-renewal and Pre-renewal Practices
- Rating Procedures
- Underwriting Practices

The examination was performed at the Seattle branch office and the Company's home office in McMinnville, Oregon.

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### HISTORY, OPERATIONS AND MANAGEMENT

Oregon Mutual Insurance Company was incorporated December 29, 1894 under the laws of Oregon as the Oregon Fire Relief Association. The name was changed to Oregon Mutual Insurance Company on February 8, 1955. Oregon Mutual is authorized to do

business in Oregon, Washington, California and Idaho and writes forms of property and casualty insurance. There are 169 agents appointed with the Companies in Washington.

The Western Protectors Insurance Company was incorporated on May 13, 1987 under the laws of the State of Oregon. It is a subsidiary of Oregon Mutual Insurance Company. Western Protectors writes personal property and private passenger automobile coverage in Washington and Oregon.

These Companies refer to themselves as the Oregon Mutual Group, throughout this report they will be referred to as the Companies, or the Group.

Management of the Companies is under the direction of:

<i>Chairman, President and Chief Executive Officer</i>	
Denis J. Walker	
<i>Vice Presidents</i>	<i>Secretary</i>
Michael E. Keyes	Toni L. Chodrick
Neil J. Reiter	
William L. Bingle	<i>Treasurer</i>
David C. Johnson	
	Michael E. Keyes

*The members of the Board of Directors are:*

Denis J. Walker (Chairman)

Betty J. Atteberry

Elliot C. Cummins

Dr. Irving M. Field

John A. Grant

Howard L. Hubbard

James L. Osborne

Fay L. Thompson

The Home Office for both companies is located in McMinnville, Oregon. There are two regional offices which serve Washington. One is located in Seattle, Washington, and the second is located in McMinnville, Oregon. Washington claims are handled by the claims department housed in the regional office in Seattle, except for claims in southwest Washington which are handled by the claims office in Portland, Oregon.

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### ADVERTISING

Advertising materials from both Oregon Mutual and Western Protectors were examined for compliance to RCW 48.30.050 which requires that the legal name and domicile of the companies be displayed on all advertisements.

Oregon Mutual and Western Protectors advertise primarily through brochures and advertisements placed in insurance industry journals such as the regional insurance magazine, *Insurance Week*.

Four brochures were reviewed as part of this exam:

- O.M. Business Owner Program
- O.M. Manufactured Homes
- Oregon Mutual Insurance - Centennial 1894-1994
- WP Western Protectors Protecting Your Future Now Automobile Homeowners, Preferred Customer series.

All of these brochures appeared to be targeting potential customers. They are distributed primarily through the company's agency force. This advertising describes various insurance products offered through Oregon Mutual or Western Protectors.

Other advertising materials reviewed included:

- The Annual Report for Oregon Mutual Insurance for 1994.
- Advertisement -Oregon Mutual Insurance Company and Western Protectors, *Insurance Week*, May 5, 1997.
- Advertisement - Oregon Mutual Insurance Company - *Washington/Alaska Professional Insurance Reporter*. January 1996.

- *Lets Talk Insurance* - Newsletter to policyholders Summer 1996 and Winter 1996. This newsletter describes various coverages, such as Personal Umbrella in easy to read terms, gives safety tips, and advice on how to avoid claims.

Our findings were as follows:

There was no legal name or Home Office address on the brochure "Oregon Mutual Insurance - Centennial 1894-1994" as required by RCW 48.30.050.

There was no form number or edition date on the WP brochure. Edition dates or form numbers

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would make it easier to ensure that only the most current materials are being distributed and that old materials are purged when changes occur.

The Newsletter is identified as a product of "The Oregon Mutual Group, P.O. Box 808, McMinnville, Oregon 97128". Oregon Mutual Group is not a legal entity in Washington. RCW 48.30.050 requires the legal name and home office address appear on all advertising materials.

#### AGENT ACTIVITY

There are 169 Oregon Mutual agents appointed in Washington. One hundred thirty six of these agents are also appointed with Western Protectors. There are no agents appointed in Washington with Western Protectors only. The Companies also identified 15 agents that had been canceled during the time period examined. The Companies have no captive agents. Their product lines are represented by independent agents who also represent several other companies.

Agents are paid a commission on the business they write with the Companies. The Companies also pay a bonus or contingent commission, the amount of which is based on their loss ratio and premium volume.

Agency files were checked and found to be in compliance with Washington laws. All required fees had been paid to the Insurance Commissioner's Office.

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#### COMPLAINT PROCEDURES

The handling of consumer complaints was reviewed to ensure that the Companies were responding to inquiries received from the OIC within the time frame established in WAC

284-30-360. The complaints were also examined to verify that internal procedures were followed.

The Companies' procedure manual specifically addresses the handling of insurance department complaints. It establishes logging, time frame and management review procedures. The manual also directs that all written complaints from insureds and claimants are handled in the same manner as insurance department complaints.

A review of a sample of complaints indicates that complaints are logged at the home office and distributed to the appropriate branch for handling. The complaints, with the exception of those involving claims, are reviewed by the branch manager and a response is sent to the complainant. Claim complaints are logged in the home office and sent to the appropriate claims department to draft a response regarding resolution of the complaint. The home office then writes a letter to the complainant in an attempt to solve the problem.

There were nine OIC complaints and inquiries recorded during the time period examined. Two of the OIC inquiries were reviewed. One inquiry was a request for information regarding an agency from Investigations and Enforcement. The other inquiry from the OIC involved a consumer complaint related to underwriting. Company responses to both OIC inquiries were made within the 15 day time frame required by WAC 284-30-360.

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## FORM AND RATE FILINGS

The following is a list of rating and advisory services utilized by the companies:

- ACCORD
- AIPSO
- American Association of Insurance Services
- American Insurance Services Group
- Insurance Services Office (ISO)
- National Association of Independent Insurers
- National Association of Mutual Insurance Companies
- Surety Association of America
- Washington Survey & Rating Bureau (WS&RB)
- Western Insurance Information Service

Personal lines products are primarily developed by the Companies utilizing data from various rating services and their own loss experience. Personal lines forms and endorsements are a combination of those forms developed by the Companies and the American Association of Insurance Services. An exception would be the dwelling fire program which uses predominantly Insurance Services Office's forms and endorsements.

The Companies have adopted the Insurance Services Office (ISO) Simplified Commercial Lines Manual for their commercial line products. ISO rates, rules, forms and endorsements are utilized with some company deviations. The Companies have developed their own programs for business owners and farms. The farm program is sold under the name *Countryman* and the business owners' program under the name *Business Owners Protector*.

A review of various rates, rating plans, manuals of rules, policy forms and endorsements was conducted. Verification of filing and approval of a sample of forms and rating plans for both personal and commercial lines was examined.

The Companies appear to be in compliance with Washington laws regarding prior approval of rates, rating plans and forms.

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### CLAIMS SETTLEMENT PRACTICES

The Companies handle Washington State claims from their claims office in Portland, Oregon and the claims department housed in the branch office in Seattle, Washington. The Seattle office handles all of Washington State except the area of southwest Washington which is handled from the Portland office. The Companies utilize independent adjusting and appraisal services as well as company adjusters.

Claim files were reviewed to ascertain timely contact and payment, procedures used for establishing actual cash value (ACV) and if benefits, coverages or policy provisions were fully disclosed to first party claimants.

One hundred forty-five claim files were reviewed. These files included automobile, homeowners and commercial claims. One file which was requested could not be located for review. The results of the examination included the following:

- Four total loss settlements did not include the unexpired portion of the license fee as required by WAC 284-30-390(1)(a) and (b).
- Two files contained unexplained delays in claims settlements
- Six files were noted to have unclear or limited documentation.
- One file had no indication of claim handler activity from the time of assignment 9/13/94 until the first log entry 12/14/94 indicating that the claim was not fully investigated within 30 days as required by WAC 284-30-370.
- Two files failed to acknowledge or act on pertinent written communications as required by WAC 284-30-330(2)



See Appendix I for claim numbers and further detail.

Seven of the files listed above were handled by the same claim handler. This raises a concern regarding the training and/or monitoring of claim handlers, the quality and frequency of supervisory reviews and the use of internal audit controls.

Subsequent events:

- Total loss claims that had additional payments due were brought to the attention of the Senior Claims Supervisor. Supplemental checks totaling \$683.08 were sent with a letter explaining the error in the original settlement to the insured.
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- The Companies have implemented a new form which must be completed on all automobile total losses. The form is designed to ensure that claim handlers include the license fees and taxes in all total loss settlements.

## UNDERWRITING AND RATING

The Companies identified approximately 800 policies that were new or renewed during the exam period. 200 personal and commercial policies were reviewed for underwriting and rating integrity. Appropriate classifications, territories, symbols and rating factors were used. There was no indication of "redline underwriting." Proper forms and endorsements were shown on the policies.

The personal lines files reviewed included private passenger auto, dwelling fire, homeowners and small farm owners. Commercial files reviewed included Business Owners and Commercial Farm accounts.

They were checked for accuracy of rating, territorial definition, classification and proper symbol application. They were also checked for timeliness of renewal offering and proper attachment of endorsements. The offer to renew was sent to the insured within the time frame required by RCW 48.18.2901(b).

Two errors were found in the files reviewed:

- One file (WP146986) was identified as having an error in rating car #2. This was brought to the attention of the underwriting department and it has been corrected.
- One file (SMW009402) was incorrectly placed with a commercial package policy (SMW) when the only coverage requested was General Liability (SLW). This was brought to the attention of the underwriting department. The correction will take place at renewal.

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## CANCELLATIONS AND NON-RENEWALS

Thirty five canceled and non-renewed policies, including both personal and commercial lines, were examined to ascertain if the Companies were complying with RCW 48.18.290, RCW 48.18.292, RCW 48.18.2901, and WAC 284-30-570. These statutes deal with the amount of time that must be given to the insured when sending cancellation or non-renewal notice. WAC 284-30-570 requires that the actual reason be given for the companies action.

Of the files reviewed, all appeared to give the proper number of days notice as is required by the above statutes. Two files examined did not comply with WAC 284-30-570 which requires the companies to convey the actual reason for non-renewal to the insured in language that is clear and easily understood.

Subsequent event: After bringing the above two files to the attention of the underwriting manager a bulletin was issued to the personal lines department reviewing the requirement of WAC 284-30-570, and a department meeting was held to discuss the requirements.

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## INSTRUCTIONS

1. The Companies are instructed to ensure that the legal name and home office address appear on all published advertising materials, such as brochures, as required in RCW 48.30.050. Additionally, the Companies are instructed to display the name and corporate addresses of Oregon Mutual and Western Protectors on the Companies' newsletter as required in RCW 48.30.050. [Page 7]
2. The Companies are instructed to ensure that all claim files contain complete and accurate notes and work papers pertaining to the claims in such detail that pertinent events and the dates of such events can be reconstructed, in compliance with WAC 284-30-340. [Page 11]
3. The Companies are instructed to ensure that all total loss settlements include the appropriate allowances for tax, transfer and title fees as required in WAC 284-30-390(1)(a) and (b). [Page 11]
4. The Companies are instructed to comply with WAC 284-30-570 by providing clear and easily understood reasons for all company decisions relative to cancellations and non-renewals. [Page 13]

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## RECOMMENDATIONS

1. It is recommended that edition dates or form numbers be added to all brochures for ease of identification and to ensure that agents use only the most current materials.
2. It is recommended that the Companies claims departments review with their claims handlers the Unfair Claims Settlement Practices regarding communications as defined in WAC 284-30-330 (2) and (6).

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APPENDIX I

MARKET CONDUCT EXAMINATION

OREGON MUTUAL GROUP

CLAIM NUMBER	COMMENTS
986070	Total Loss. Settlement did not include unused license tab allowance.
525332	Total Loss: Settlement did not include unused license tab allowance.
525361	Delay in settlement of collision claim.  Lack of Documentation on PIP portion of the claim
520845	Subrogation notice received from State Farm 10/27/94- no acknowledgment to adverse carrier. Denied receiving subrogation documentation.  Claimant wrote settlement demand 2/1/95, never acknowledged  File assigned to adjuster 9/13/94, first log entry 12/14/94.
519985	Documentation regarding settlement of total loss unclear.  No file activity documented from 8/5/94-1/9/95  Offer noted to SAFECO 50% never made in writing, no follow-up.

093606	Unclear documentation regarding replacement cost.
092299	Unable to locate original file to review.
092515	Documentation in the file on the use of a replacement service not explained.
912022	Documentation and initial investigation documentation unclear.  Delay of settlement between 2/14/96 and 4/11/96 when the claim was  paid.
746760	Documentation unclear as to how the settlement was reached.
986210	2 total losses  Settlements did not include tax, or license  fee allowance.